

December 7, 2007

Order Instituting Rulemaking to Implement the Commission's Procurement Incentive Framework and to Examine the Integration of Greenhouse Gas Emissions Standards into Procurement Policies.

**BEFORE THE  
ENERGY RESOURCES CONSERVATION AND DEVELOPMENT  
COMMISSION OF THE STATE OF CALIFORNIA**

# Order Instituting Informational Proceeding on a Greenhouse Gas Emissions Cap

Docket 07-OIIP-01

In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (CPUC), and the instructions set forth in the November 30, 2007 Administrative Law Judge's Ruling Extending Comment Deadlines and Addressing Procedural Matters, the Northern California Power Agency<sup>1</sup> (NCPA) submits these comments<sup>2</sup> in response to the supplemental information filed by the Southern California

<sup>2</sup> These comments are being concurrently filed with the CPUC in Rulemaking 06-04-009 and with the California Energy Commission (CEC) in Docket 07-OIIP-01.

Public Power Authority<sup>3</sup> (SCPPA) and the Pacific Gas and Electric Company<sup>4</sup> (PG&E) on November 14, 2007 (Supplemental Comments). As directed, these comments respond only to those portions of the SCPPA and PG&E filings marked as “supplemental.”

NCPA’s comments focus on the continued mischaracterization of the term “wealth transfer” in the context of an administrative allocation of emissions allowances. In its Supplemental Comments, SCPPA suggests a significant “wealth transfer” from “southern California public utilities to other California utilities.” (SCPPA at p. 7) This one-sided use of the term “wealth transfer” ignores the flip side of SCPPA’s position; to wit that retail providers that currently have a low carbon resource mix will have to purchase allowances from those that do not. (SCPPA at p. 5) This position also ignores a fundamental policy question: Why should those with higher emissions profiles be granted a right to continue to emit more GHGs, especially when it those same entities that have the greatest ability to effect reductions?

For clarification, NCPA notes that while the graphs contained in the SCPPA filing depict NCPA as a single entity, it is important to be aware of the fact that such a representation is overly broad and does not accurately reflect the allowance allocation impacts that would be felt by NCPA’s 17 members. NCPA’s members are not all similarly situated as it pertains to their current emissions profiles; members have ownership interests in resources that range from coal-fired generation to large hydroelectric facilities, from natural fired gas facilities to geothermal electric power plants. Despite this wide range of resources and varied emissions profiles, NCPA and its members uniformly recognize that allowing higher emitting entities to obtain a disproportionate share of emissions allowances would punish low-emitting retail providers.

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<sup>3</sup> Southern California Public Power Authority Supplement to Opening Comments and Reply Comment on Allowance Allocation Issues, dated November 14, 2007, pp. 2-10.

<sup>4</sup> Reply Comments on Pacific Gas and Electric Company (U 39) on Allowance Allocation Issues Under AB32, dated November 14, 2007, pp. 20-24.

The figures in the Supplemental Comments indicate that retail providers with high carbon-intensive resources will have to purchase greater emissions allowances; there is nothing fundamentally wrong with this position. Indeed, should the allocation mechanism be based on emissions, direction of the “wealth transfer” would shift considerably in the opposite direction. In this case entities with low-carbon resources would need to purchase emissions allowances from those that were granted greater emissions allowances at the onset.

SCPPA correctly notes that it will be the electricity customers that will eventually have to bear the cost of reducing emissions in the electricity sector – accordingly, the allowances allocated to the retail providers should be based on the electricity that those same customers consume, and not on what the retail providers’ emissions profiles look like. It is an inescapable fact that all retail providers are going to have to incur costs associated with emissions reductions and AB32 compliance. Indeed, many retail providers have already taken proactive (and often costly) measures to reduce their reliance on carboniferous resources. Low GHG portfolios are not an accidental happenstance, but rather the result of implementation of federal, state, and local policies that did not have their genesis with AB32. (See PG&E at p. 22-22, SCPPA at p. 7) In fact, as early as 1991, even retail providers in southern California with high emitting resources acknowledged the need to reduce GHG emissions, and stated their intent to take affirmative actions to reduce CO<sub>2</sub> emissions by 10 percent per year for 10 years.<sup>5</sup> The costs associated with past and existing reduction efforts are not reflected in the figures set forth in the Supplemental Comments, or even acknowledged in discussions regarding “the enormous costs that those ratepayers are going to have to incur.” (SCPPA at p. 7) To be sure, allocation based solely on emissions both decreases an entities’ incentive to further reduce its emissions and insures those with higher emitting resources continue to be rewarded with allowance allocations based on their past carbon-intensive portfolios. At the same time, retail providers with low carbon-intensive resources that have already taken measures to reduce GHG and who will have a demonstrably

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<sup>5</sup> See Reply Comments of the Natural Resource Defense Council (NRDC), Union of Concerned Scientists (UCS) and Green Power Institute (GPI) on Allowance Allocation Issues, dated November 14, 2007, at pp. 5-6, referencing a May 20, 1991 Southern California Edison (SCE) press release regarding a SCE/Los Angeles Department of Water and Power joint announcement of the adoption of a ‘resource strategy that will reduce their carbon dioxide emissions.’

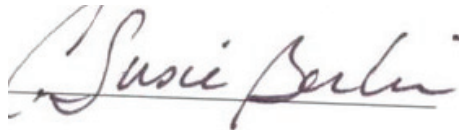
more difficult time further reducing their profile (especially in low growth areas) will be forced to purchase allowances from entities that started out with higher historic emissions. As a practical matter, that is just poor public policy.

## **I. CONCLUSION**

AB32 mandates statewide emissions reductions. In order to effect the mandated emissions reductions in the face of a growing population and economy that constantly increases the demand for electricity, emissions allowances will become an increasingly scarce resources. Some entities will need to purchase allowances and some entities will likely have excess allowances; NCPA advocates an allocation of those emissions allowances that is most directly linked to the customers that are going to bear the costs associated with emission reductions, and which does not “grandfather” emissions credits to entities with historically high GHG emissions. Accordingly, NCPA urges the Commission to look beyond the mischaracterization of the term “wealth transfer” as set forth in the Supplemental Comments.

December 7, 2007

Respectfully submitted,

A handwritten signature in dark ink, reading "Susie Berlin". The signature is written in a cursive, flowing style. The first name "Susie" is written with a large, looped 'S' and the last name "Berlin" is written in a more compact, cursive script.

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## CERTIFICATE OF SERVICE

I hereby certify that, pursuant to the Commission's Rule of Practice and Procedure, I have this day served a true copy of the **RESPONSE OF THE NORTHERN CALIFORNIA POWER AGENCY REGARDING SUPPLEMENTAL COMMENTS ON ALLOWANCE ALLOCATION ISSUES** on all parties on the Service Lists for R.06-04-009, as last revised on the Commission's website on December 6, 2007, by electronic mail, and by U.S. mail with first class postage prepaid on those Appearances that did not provide an electronic mail address.

Executed at San Jose, California this 7<sup>th</sup> day of December, 2007.

A handwritten signature in blue ink, appearing to read 'Katie McCarthy', is written over a horizontal line.

Katie McCarthy